



WILLIAM T FUJIOKA  
Chief Executive Officer

# County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, California 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>

July 5, 2011

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, California 90012

Dear Supervisors:

## ADOPTED

BOARD OF SUPERVISORS  
COUNTY OF LOS ANGELES

15 JULY 5, 2011

*Sachi A. Hamai*  
SACHI A. HAMAI  
EXECUTIVE OFFICER

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

### **CONTRACT CITIES LIABILITY TRUST FUND REQUEST FOR SUSPENSION OF LIABILITY SURCHARGE RATES (ALL DISTRICTS AFFECTED) (3 VOTES)**

#### **SUBJECT**

The California Contract Cities Association Liability Trust Fund Oversight Committee, and the Sheriff's Department are requesting the Board of Supervisors' consideration to suspend the current 4 percent Sheriff's Department contract surcharge for a twelve month period from July 1, 2011 through June 30, 2012. It is also recommended that the surcharge suspension be afforded only to those cities that have had primary responsibility for building the Liability Trust Fund surplus: cities that have contracted with the Sheriff's Department for more than five years. An actuarial study of the current liabilities, estimate of existing costs, and projection of future expenditures was performed by an independent consultant to support the request for modifications (Attachment I).

#### **IT IS RECOMMENDED THAT YOUR BOARD:**

1. Suspend the invoicing of the Liability Trust Fund liability surcharge on Sheriff's Department services for contract cities for a twelve (12) month period from July 1, 2011 through June 30, 2012
2. Require the surcharge suspension be afforded to those cities that have contracted with the Sheriff Department for more than five (5) years.

*"To Enrich Lives Through Effective And Caring Service"*

***Please Conserve Paper – This Document and Copies are Two-Sided  
Intra-County Correspondence Sent Electronically Only***

### **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

The Liability Trust Fund (LTF) (comprised of two funds, the Sheriff's Department Fund and the All Other Departments fund) is a trust account funded by contract cities to reimburse the County for costs related to litigation that results from contract city operations. The LTF is self insured for liabilities up to \$2 million. The Oversight Committee has maintained excess insurance policies to cover losses up to \$50 million. Currently, contract cities pay respectively 4 percent surcharge into the LTF for their individual contract expense for Sheriff's Department (Sheriff) and All Other Department services.

This past year, the Liability Trust Fund Oversight Committee hired Milliman consultants to conduct an actuarial study of its liabilities, estimate of existing costs, and projection of future expenditures. The actuarial study reports that Sheriff contracts as of June 30, 2010 had assets of \$59.4 million and a present value of \$29.3 million. On a 90 percent probability level, liabilities would increase to \$37.5 million. On this conservative measure, the LTF will be sufficiently funded in excess of its liabilities. (Attachment II)

Pursuant to the actuarial study, the current financial position of the LTF will allow for a suspension in member contributions for Sheriff contract services while continuing to maintain the fiscal integrity of the fund.

Sheriff concurs with the actuarial study and also believes that the suspension of the Sheriff contract services LTF liability surcharge will not impact future liabilities. Sheriff further believes the excess insurance policies protect the fund against catastrophic indemnity losses.

County Counsel's Office has reviewed the known outstanding claims attributed to the LTF and indicates that it does not see any trending or outstanding claims that would raise concern about the proposed suspension of the surcharge rates. Additionally, it should be noted that the LTF uses excess insurance to protect the assets in the fund.

### **Implementation of Strategic Plan Goals**

The recommended actions support the County Strategic Plan Goal 5 - Public Safety: Ensure that the committed efforts of the public safety partners continue to maintain and improve the safety and security of the people of Los Angeles County.

**FISCAL IMPACT/FINANCING**

Milliman's analysis and the independent review of Buck Consultants provide that the LTF is suitably funded for its current liabilities and should maintain reserves consistent with its actuarially determined liabilities. The changes requested in this Board letter will not impact the County's financial situation.

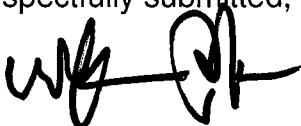
**FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

Pursuant to the Assumption of Liability Agreement and/or Joint Indemnity Agreement between County and each contract city, the LTF liability surcharge rates are established by the County in accordance with the policies and procedures established by your Board.

**IMPACT ON CURRENT SERVICES (OR PROJECTS)**

None.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'WTF' followed by a stylized flourish.

WILLIAM T FUJIOKA  
Chief Executive Officer

WTF:JAW:SW  
DC:cc

Attachments (2)

c: Executive Office, Board of Supervisors  
County Counsel  
Sheriff

CALIFORNIA CONTRACT CITIES ASSOCIATION  
LIABILITY TRUST FUND OVERSIGHT COMMITTEE

California Contract Cities Association  
11027 Downey Avenue  
Downey, CA 90241  
(562) 622-5533

Liability Trust Fund Oversight Committee  
8081 Moody Street  
La Palma, CA 90623  
(562) 467-8700

April 21, 2011

William T. Fujioka, Chief Executive Officer  
County of Los Angeles  
Room 713, Hall of Administration  
Los Angeles, CA 90012

RE: Liability Trust Fund: Suspension of the 2011-2012 Surcharge on Sheriff Contracts

Dear Mr. Fujioka:

Last April, the Board of Supervisors approved a reduction in the Liability Trust Fund (LTF) surcharge rate on Sheriff contracts and an increase in the surcharge amount for Public Works and "all others," that resulted in both surcharge rates being set at 4%. In addition, the Board of Supervisors approved a six-month suspension of the Sheriff's surcharge from January 1 – June 30, 2010. The Board of Supervisors approved this action because the actuarial study as of June 30, 2009, indicated the LTF had an actuarial status of \$19.7 million (defined as LTF assets minus estimated outstanding liabilities) at the 90% probability level.

We are writing to thank you for your help in facilitating the rate suspension and adjustment and to ask for your assistance again.

As you know, the County of Los Angeles provides services to cities and agencies throughout the region through contracts for service. Cities that contract with the County for services pay a surcharge as part of the contract to address the liability associated with the provision of the services by the County. The surcharge is deposited in the LTF, which is maintained by the County.

During the past ten years, risk management activities of the Sheriff's Department and other departments as well as the work of the Liability Trust Fund Oversight Committee have led to a reduction in the frequency and severity of claims charged to the LTF. As a result, the actuarial status of the Fund has improved dramatically.

Despite the surcharge suspension on Sheriff's contracts as discussed above, the actuarial study as of June 30, 2010, indicated that the LTF's actuarial status at a 90% probability level was \$21.7 million. This marks the second year that the LTF's actuarial status is well in excess of the target probability level of 75-90%.



While the Liability Trust Fund Oversight Committee (LTF Oversight Committee) does not feel an adjustment to the surcharge is warranted at this time, the LTF Oversight Committee believes it is appropriate to decrease the surplus funds in the LTF. Thus the LTF Oversight Committee, with support from the California Contract Cities Association and Sheriff Baca, is recommending a complete suspension of the 4% sheriff contract surcharge for a twelve-month period from July 1, 2011 through June 30, 2012. They also recommend that the surcharge suspension be afforded only to those cities that have had primary responsibility for building the LTF's surplus: cities that have contracted with the Sheriff for more than five years. Based on actuarial estimates, suspending the surcharge for a twelve-month period will still result in an actuarial status of over \$15 million at a 90% probability level as of June 30, 2012.

As stewards of the LTF, the Board of Supervisors and the LTF Oversight Committee have a fiduciary responsibility to appropriately fund for the liabilities associated with the contract services. It is proper to take a conservative approach, but the maintenance of surplus significantly in excess of the funding needs may be perceived as an inappropriate use of public funds.

The attached letter from actuary Michael DeMattei of Milliman includes pro-forma projections designed to demonstrate the impact of various actions on the Fund's actuarial status. Exhibit I shows the projected actuarial status as of June 30, 2012, under four different scenarios. In all scenarios presented, the Public Works (and other departments) surcharge remained at 4% since the actuarial status is relatively small. In addition, DeMattei used a 3% annual investment rate as that was the rate the County provided for the full study. In every scenario, the projected actuarial status as of June 30, 2012, remains well in excess of the 90% probability level.

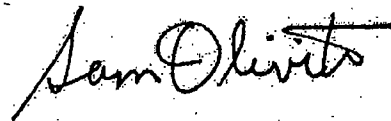
In summary, the LTF Oversight Committee and the California Contract Cities Association recommend the Board of Supervisors approve a twelve-month suspension of the Sheriff's contract surcharge, for the period of July 1, 2011 through June 30, 2012, for cities that have had Sheriff's contracts in place for five years or more.

We would be happy to meet with you to discuss this request. Please contact Jonathan Shull, California JPIA, at (562) 467-8717 if you have questions or need more information.

Sincerely,



Curtis Morris  
Mayor, City of San Dimas  
Chair, Liability Trust Fund Oversight Committee



Sam Olivito, Executive Director  
California Contract Cities Association

Enclosure

cc: Jonathan Shull, California JPIA





Michael L. DeMattei  
FCAS, MAAA  
Principal & Consulting Actuary

michael.demattei@milliman.com  
milliman.com

70 South Lake Avenue  
Suite 1100  
Pasadena, CA 91101-4705  
USA

Tel +1 626 577 1144  
Fax +1 626 793 2808

March 30, 2011

Liability Trust Fund Oversight Committee  
c/o Beth Lyons, Assistant Executive Officer  
California Joint Powers Insurance Authority  
8081 Moody Street  
La Palma, California 90623

**Re: Pro-Forma Projections**

Dear Committee Members:

This letter provides pro-forma projections of the County of Los Angeles (the County) Contract Cities self-insurance program (the Program), based on input from the Liability Trust Fund Oversight Committee (the Committee) and the recent Milliman report<sup>1</sup>. The letter consists of the following sections:

- Background
- Summary of Projections
- Limitations

## BACKGROUND

Currently, Liability Trust Fund ("Fund") surcharges are 4.0% for Sheriffs and 4.0% for all other departments. These rates are applied to total contract amounts to provide funding for expected liability claims arising from the contracted services. The Committee has asked Milliman to provide pro-forma projections of the Program's actuarial status (defined as Fund assets minus estimated outstanding liabilities) as of June 30, 2012 under different assumptions relating to the Sheriffs surcharge during the July 1, 2011 to June 30, 2012 period.

Per request of the Committee, we are assuming 3.0% annual net investment yield for the purposes of present valuing the liabilities and growth of Fund assets. Milliman expresses no opinion on the appropriateness of this interest rate assumption.

<sup>1</sup> *An Actuarial Analysis of County of Los Angeles Contract Cities Self-Insurance Program as of June 30, 2010*, dated March 2, 2011.



## SUMMARY OF PROJECTIONS

Exhibit I shows the projected actuarial status as of June 30, 2012 under the following assumptions regarding the Sheriffs surcharge (note that Page 1 represents the scenario where there is no change from the current annual 4% surcharge):

Page 1: July 1 – December 31, 2011 Rate Scenario - Sheriff 4%; All Other 4%  
January 1 – June 30, 2012 Rate Scenario - Sheriff 4%; All Other 4%

Page 2: July 1 – December 31, 2011 Rate Scenario - Sheriff 0%; All Other 4%  
January 1 – June 30, 2012 Rate Scenario - Sheriff 4%; All Other 4%

Page 3: July 1 – December 31, 2011 Rate Scenario - Sheriff 0%; All Other 4%  
January 1 – June 30, 2012 Rate Scenario - Sheriff 0%; All Other 4%

Page 4: July 1 – December 31, 2011 Rate Scenario - Sheriff 2%; All Other 4%  
January 1 – June 30, 2012 Rate Scenario - Sheriff 2%; All Other 4%

Due to our assumptions regarding the annual accrual and payment of interest (detailed in the exhibit footnotes), the projected actuarial status for the scenarios on page 2 and page 4 are identical. If more precise assumptions are made, there would be a slight difference between the projected actuarial status under the two scenarios, which we believe is immaterial for the purposes of these projections.

## LIMITATIONS

Actuarial projections by their very nature are subject to uncertainty. That uncertainty is greatly compounded in this case by the projections of amounts out to the 2011/2012 fiscal year. Clearly, actual amounts could turn out to be significantly higher or lower than those projected in this letter.

The pro-forma projections were based on the conclusions and assumptions developed in our full actuarial report, without review or update to reflect any subsequent claim experience in the Program. Therefore, the March 2, 2011 report should be read in conjunction with this letter. The caveats and limitations contained in the report should also be understood to apply to this letter.

Milliman's work is prepared solely for the use and benefit of the Committee in accordance with its statutory and regulatory requirements. Milliman recognizes that materials it delivers to the Committee may be public records subject to disclosure to third parties, however, Milliman does not intend to benefit and assumes no duty or liability to any third parties who receive Milliman's



work and may include disclaimer language on its work product so stating. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, the Committee agrees that it shall not disclose Milliman's work product to third parties without Milliman's prior written consent; provided, however, that the Committee may distribute Milliman's work to (i) its professional service providers who are subject to a duty of confidentiality and who agree to not use Milliman's work product for any purpose other than to provide services to the Committee, or (ii) any applicable regulatory or governmental agency, as required.

In the event Milliman consents to release its work product, it must be provided in its entirety. We recommend that any such party have its own actuary or other qualified professional review the work product to ensure that the party understands the assumptions and uncertainties inherent in our estimates. No third party recipient of Milliman's work product should rely upon Milliman's work product.

Milliman does not permit use of Milliman's name, trademarks, service marks, or references to Milliman directly or indirectly in any media release, public announcement or public disclosure, including any promotional or marketing materials, customer lists, referral lists, web sites or business presentations without Milliman's prior written consent, which shall be given in Milliman's sole discretion.

We will be available to discuss this letter at your request.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. DeMattei".

Michael L. DeMattei  
FCAS, MAAA



**COUNTY OF LOS ANGELES  
CONTRACT CITIES SELF-INSURANCE PROGRAM**

**ESTIMATED PROGRAM UNPAID AND ACTUARIAL STATUS (\$000)  
AS OF JUNE 30, 2012**

*Jul 1 - Dec 31 2011 Rate Scenario - Sheriff 4%; All Other 4%*

*Jan 1 - Jun 30 2012 Rate Scenario - Sheriff 4%; All Other 4%*

	Sheriff's Department	All Other Departments	Total
(1) Estimated Discounted Unpaid Loss and LAE as of 6/30/12	\$30,490	\$2,154	\$32,644
(2) Margin for Contingencies			
(75% Level)	\$3,773	\$268	\$4,041
(80% Level)	5,000	356	5,355
(90% Level)	8,569	611	9,180
(3) Estimated Program Unpaid as of 6/30/12			
(75% Level)	\$34,263	\$2,422	\$36,685
(80% Level)	35,490	2,509	37,999
(90% Level)	39,059	2,765	41,824
(4) Revenue for 6/30/10 - 11	\$248,471	\$27,680	\$276,151
(5) Revenue for 6/30/11 - 12	255,925	28,511	284,435
(6) Deposits for 7/1/10 - 12/31/10	\$4,969	\$554	\$5,523
(7) Deposits for 1/1/11 - 6/30/11	4,969	554	5,523
(8) Deposits for 7/1/11 - 12/31/11	5,118	570	5,689
(9) Deposits for 1/1/12 - 6/30/12	5,118	570	5,689
(10) Loss and LAE Payments for 6/30/10-11	\$9,215	\$1,668	\$10,883
(11) Loss and LAE Payments for 6/30/11-12	7,370	829	8,199
(12) Excess Insurance Prem for 6/30/10-11	\$1,125	\$125	\$1,250
(13) Excess Insurance Prem for 6/30/11-12	1,239	138	1,377
(14) Interest Earned During 6/30/10-11	\$1,760	\$101	\$1,861
(15) Interest Earned During 6/30/11-12	1,829	97	1,926
(16) Assets as of 6/30/10	\$59,414	\$3,784	\$63,198
(17) Estimated Assets as of 6/30/11	60,772	3,199	63,971
(18) Estimated Assets as of 6/30/12	64,228	3,470	67,698
(19) Estimated Actuarial Status			
(75% Level)	\$29,965	\$1,048	\$31,013
(80% Level)	28,738	961	29,699
(90% Level)	25,169	705	25,874

- Notes: 1. Revenue is estimated based on 6/30/09 - 10 revenue assuming 3.0% annual growth.  
2. Unpaid loss and LAE discounted assuming a 3.0% net annual yield.  
3. Interest earned on invested assets based on 3.0% net annual yield.  
4. Excess insurance premium assumed paid on June 30th.  
5. Interest is calculated based on the average level of invested assets, and is assumed to be paid on December 31st.  
6. Line (17) = (16) + (6) + (7) - (10) - (12) + (14).  
7. Line (18) = (17) + (8) + (9) - (11) - (13) + (15).

**Milliman**

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COUNTY OF LOS ANGELES  
CONTRACT CITIES SELF-INSURANCE PROGRAM

ESTIMATED PROGRAM UNPAID AND ACTUARIAL STATUS (\$000)  
AS OF JUNE 30, 2012

*Jul 1 - Dec 31 2011 Rate Scenario - Sheriff 0%; All Other 4%*  
*Jan 1 - Jun 30 2012 Rate Scenario - Sheriff 4%; All Other 4%*

	Sheriff's Department	All Other Departments	Total
(1) Estimated Discounted Unpaid Loss and LAE as of 6/30/12	\$30,490	\$2,154	\$32,644
(2) Margin for Contingencies			
(75% Level)	\$3,773	\$268	\$4,041
(80% Level)	5,000	356	5,355
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(90% Level)	39,059	2,765	41,824
(4) Revenue for 6/30/10 - 11	\$248,471	\$27,680	\$276,151
(5) Revenue for 6/30/11 - 12	255,925	28,511	284,435
(6) Deposits for 7/1/10 - 12/31/10	\$4,969	\$554	\$5,523
(7) Deposits for 1/1/11 - 6/30/11	4,969	554	5,523
(8) Deposits for 7/1/11 - 12/31/11	0	570	570
(9) Deposits for 1/1/12 - 6/30/12	5,118	570	5,689
(10) Loss and LAE Payments for 6/30/10-11	\$9,215	\$1,668	\$10,883
(11) Loss and LAE Payments for 6/30/11-12	7,370	829	8,199
(12) Excess Insurance Prem for 6/30/10-11	\$1,125	\$125	\$1,250
(13) Excess Insurance Prem for 6/30/11-12	1,239	138	1,377
(14) Interest Earned During 6/30/10-11	\$1,760	\$101	\$1,861
(15) Interest Earned During 6/30/11-12	1,752	97	1,849
(16) Assets as of 6/30/10	\$59,414	\$3,784	\$63,198
(17) Estimated Assets as of 6/30/11	60,772	3,199	63,971
(18) Estimated Assets as of 6/30/12	59,033	3,470	62,503
(19) Estimated Actuarial Status			
(75% Level)	\$24,770	\$1,048	\$25,818
(80% Level)	23,543	961	24,503
(90% Level)	19,974	705	20,679

- Notes:
1. Revenue is estimated based on 6/30/09 - 10 revenue assuming 3.0% annual growth.
  2. Unpaid loss and LAE discounted assuming a 3.0% net annual yield.
  3. Interest earned on invested assets based on 3.0% net annual yield.
  4. Excess insurance premium assumed paid on June 30th.
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Milliman

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**COUNTY OF LOS ANGELES  
CONTRACT CITIES SELF-INSURANCE PROGRAM**

**ESTIMATED PROGRAM UNPAID AND ACTUARIAL STATUS (\$000)  
AS OF JUNE 30, 2012**

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(7) Deposits for 1/1/11 - 6/30/11	4,969	554	5,523
(8) Deposits for 7/1/11 - 12/31/11	0	570	570
(9) Deposits for 1/1/12 - 6/30/12	0	570	570
(10) Loss and LAE Payments for 6/30/10-11	\$9,215	\$1,668	\$10,883
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(13) Excess Insurance Prem for 6/30/11-12	1,239	138	1,377
(14) Interest Earned During 6/30/10-11	\$1,760	\$101	\$1,861
(15) Interest Earned During 6/30/11-12	1,675	97	1,772
(16) Assets as of 6/30/10	\$59,414	\$3,784	\$63,198
(17) Estimated Assets as of 6/30/11	60,772	3,199	63,971
(18) Estimated Assets as of 6/30/12	53,838	3,470	57,308
(19) Estimated Actuarial Status			
(75% Level)	\$19,574	\$1,048	\$20,622
(80% Level)	18,348	961	19,308
(90% Level)	14,778	705	15,484

- Notes: 1. Revenue is estimated based on 6/30/09 - 10 revenue assuming 3.0% annual growth.  
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COUNTY OF LOS ANGELES  
CONTRACT CITIES SELF-INSURANCE PROGRAM

ESTIMATED PROGRAM UNPAID AND ACTUARIAL STATUS (\$000)  
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7. Line (18) = (17) + (8) + (9) - (11) - (13) + (15).

Milliman

This report was prepared solely to provide assistance to Liability Trust Fund Oversight Committee. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this report. Milliman recommends Recipient be aided by its own actuary or other qualified professional when reviewing the Milliman report.

**buckconsultants**

A Xerox Company

June 21, 2011

William T. Fujioka, Chief Executive Officer  
County of Los Angeles  
Room 713, Hall Of Administration  
Los Angeles, CA 90012

Re: Liability Trust Fund: Suspension of the 2011-2012 Surcharge on Sheriff Contracts

Dear Mr. Fujioka:

In response to a request from Jim Adams, Chief, Employee Relations/Benefits & Compensation Policy, I reviewed the following documents:

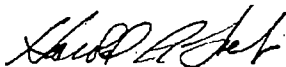
- Milliman's March 2, 2011 Actuarial Analysis of County of Los Angeles Contract Cities Self-Insurance Program as of June 30, 2010
- Milliman's March 30, 2011 Pro-Forma Projections letter to the Liability Trust Fund Oversight Committee
- The California Contract Cities Association Liability Trust Fund Oversight Committee's April 21, 2011 letter to you re: Liability Trust Fund: Suspension of the 2011-2012 Surcharge on Sheriff Contracts.

The purpose of the review was to determine whether it was financially sound to suspend the Sheriff's contract surcharge for the period of July 1, 2011 through June 30, 2012 for cities that have had Sheriff's contracts in place for five years or more.

The Milliman report indicates that the Sheriff's contracts as of June 30, 2010 had assets of \$59.4 million and a present value of liabilities of \$29.3 million. On a 90% probability level, liabilities would increase to \$37.5 million. Even on this very conservative measure, the Liability Trust Fund still has assets significantly in excess of liabilities.

My conclusion, therefore, is that the suspension of contract surcharges for cities that have had Sheriff's contracts in place for five years or more would not jeopardize the Fund's ability to meet its obligations.

Sincerely,



Harold A. Loeb, ASA, MAAA, EA  
Principal and Consulting Actuary